

Federal Business Taxes Payable Annually In Kentucky

1. Corporation Income Tax

Tax Base: Net income after all allowable deductions for business expenses, depreciation, interest costs, taxes paid, contributions, etc.

Rates:	<u>Net Income</u>	<u>Tax Rate</u>
	First \$ 50,000	15%
	Next 25,000	25%
	Next 25,000	34%
	Next 235,000	39%
	Next 9,665,000	34%
	Next 5,000,000	35%
	Next 3,333,333	38%
	Over 18,333,333	35%

Note: The additional 5% tax on income between \$100,000 and \$335,000 offsets the lower 15% and 25% tax rates for corporations with higher incomes. The net effect is that all of the income of a corporation with taxable income of \$335,000 to \$10,000,000 is taxed at 34%.

2. Social Security Taxes

- A. Old age, survivors, and disability (OASDI): Employer and employee each pay 6.2% on the first \$94,200 of wages (2006).
- B. Medicare: Employer and employee each pay 1.45% on all wages (2006).
- C. Total Rate: 7.65%. For the self-employed, the total rate is 15.30%.

3. Federal Unemployment Insurance Tax

Rate: 6.2% on first \$7,000 of wages paid to each worker annually for 2006. A maximum credit of 5.4% is allowed for unemployment insurance payments to state governments. The net federal U.I. tax cost to employers is the difference between the rate paid to the state and 6.2%. The rate for new companies in Kentucky is 2.7% for the first \$8,000 of payroll.

4. Other Federal Taxes

Federal excise taxes may be applicable. Examples are motor fuel taxes, taxes on airline tickets, import duties, and the 3% excise tax on local telephone bills only. Federal courts have ruled the 3% excise tax does not apply to long distance calls. (IRS Notice 2006-50, http://www.irs.gov/irb/2006-25_IRB/ar09.html.)

For further information, refer to the U.S. Internal Revenue Service (IRS) web site—<http://www.irs.gov/form6spubs/index.html>—especially the Employer's tax guides.

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